



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2017 Biennium

Bill #	HB0416	Title:	Provide military income tax exemption
Primary Sponsor:	Mehlhoff, Robert (Bob)	Status:	As Amended in House Committee

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|---|--|--|
| <input type="checkbox"/> Significant Local Gov Impact | <input type="checkbox"/> Needs to be included in HB 2 | <input type="checkbox"/> Technical Concerns |
| <input type="checkbox"/> Included in the Executive Budget | <input type="checkbox"/> Significant Long-Term Impacts | <input type="checkbox"/> Dedicated Revenue Form Attached |

FISCAL SUMMARY

	<u>FY 2016 Difference</u>	<u>FY 2017 Difference</u>	<u>FY 2018 Difference</u>	<u>FY 2019 Difference</u>
Expenditures:				
General Fund	\$0	\$0	\$0	\$0
Revenue:				
General Fund	(\$327,800)	(\$327,800)	(\$327,800)	(\$327,800)
Net Impact-General Fund Balance:	<u>(\$327,800)</u>	<u>(\$327,800)</u>	<u>(\$327,800)</u>	<u>(\$327,800)</u>

Description of fiscal impact: HB 416, as amended, proposes an exemption for \$2,000 in income from Montana National Guard service under Title 32 of the federal code. The reduction in state general fund revenue is estimated to be \$327,800 per year.

FISCAL ANALYSIS

Assumptions:

- HB 416, as amended, exempts the first \$2,000 of salary received by a resident of Montana under provisions of Title 32 of federal code for military service in the Montana National Guard from state income tax.
- Montana taxable income is based on federal taxable income after certain additions and subtractions. Federal taxable income is the sum of all wages and salaries, social security and other retirement income, capital gains, net business income, rents, royalties and proprietary income, and so forth. After the additions and subtractions required by state law are made producing Montana gross income, then the taxpayer is entitled to both a personal exemption and a standard or itemized deduction. In TY 2014, the personal exemption is \$2,330 and the standard deduction is \$1,990 (for the rest of this fiscal note, only the standard deduction is discussed). Once the personal exemption and standard deduction are subtracted from Montana gross income, the amount remaining is Montana taxable income (MTI). The tax is determined based upon MTI, using a tax table, or calculated using formula.

3. If, to take the simplest example, in 2014 a single individual with total income of \$30,000 per year who has one personal exemption (no dependents and is not blind or over 65 years old) and who uses the standard deduction and has no other deductions, exemptions or credits, this exemption would reduce their total income to \$28,000, thereby reducing their state income tax from \$1,231 to \$1,093, a savings of \$138.
4. The maximum benefit anyone can receive from the proposed deduction is \$138 since the top state tax rate is 6.9% (\$5,000 times 6.9% equals \$138). In tax year 2014 the top tax rate of 6.9% applies once Montana taxable income (after the personal exemption and standard deduction) is \$17,100 or higher. Effectively once total income (before the standard deduction and personal exemption are subtracted) is \$21,370 or more, the individual will get the full benefit of the proposed exemption, or \$138.
5. For a person earning \$10,000 per year with one personal exemption and who uses the standard deduction, the proposed exemption would reduce their taxable income to \$8,000, reducing their Montana income tax from \$93.90 to \$46.60, a savings of \$47.30. For an individual earning \$4,270 or less (the sum of the 2014 personal exemption of \$2,300 and the standard deduction of \$1,990) the proposed exemption does not provide any benefit since they already do not have any Montana taxable income.
6. Based upon information provided by the Montana National Guard, there are almost 3,777 Air and Army guard members. However some of the personnel are civilian and will not be eligible for the exemption, reducing the total eligible to 3,180. The Air National Guard provided average salary payments by grade and also age distribution information. Some of these individuals are full-time and earn sufficient income to receive the full benefit of the deduction, or \$138. Others earn enough income to receive the full benefit of the deduction even though they are not full-time (for example, pilots or certain higher level officers).
7. However, others serve part-time and do not earn enough from their guard service to receive the full benefit of the deduction on that income alone. But as described in assumption 2 above, Montana taxable income starts with federal taxable income, which includes all taxable income from wages and salaries and other income categories. So the revenue change due to the deduction depends upon total income, not just income from guard duty.
8. The Department of Revenue does not have information on the other income earned by these Guard members who are serving part-time. However, traditional guard service is normally one weekend per month, or four days per month which includes time to prepare and complete assignments, plus two additional weeks of training. The pay from the part-time or traditional service is not enough to support most individuals long-term; however, some may be going to college or other post-secondary training, or otherwise able to live on their guard income due to spousal or parental support.
9. So the following assumptions were employed for the Air guard members: 50% of part-time guard members who are 17-24 years old are assumed to have no additional income beyond their guard income. The other 50% are assumed to have the additional average income of their age group as reported in the U.S. Census in 2013 (\$10,678). For guard members aged 25-34 years, one-third were assumed to have no other income, and two-thirds were assumed to have the additional average income of their age group as reported in the U.S. Census in 2013 (\$30,759) or were assumed to have total household income sufficient to obtain the full benefit of the exemption. For all other age groups, the members were assumed to be making additional individual or household income sufficient to receive the full benefit of the exemption.
10. For the Army guard members it was assumed that the bottom four grades (E1-E4) are the youngest and therefore, half were assumed to have no additional income beyond their guard income and half were assumed to have additional income consistent with the census data on 17-24 year olds. For the higher enlisted grades, it was assumed that they would receive the full benefit of the exemption due to the combination of guard and other household income. This is consistent with the Air guard data and the information that the Army guard tends to skew younger than the Air guard.
11. Based upon these assumptions and the data, about 56% or 1,786 individuals are estimated to receive the full benefit of the income exemption, or \$138. It is assumed all taxpayers eligible for the deduction will claim it. The total amount for this group is estimated to be \$246,468 (1,786 times \$138).

12. In total there were 1,394 individuals who are estimated to receive partial benefit of the deduction totaling \$81,308.
13. Altogether the total benefit from the exemption is estimated to be about \$327,766, rounded to \$327,800.
14. Provisions of the bill apply to tax year 2015 and are estimated to impact FY 2016 revenue and later years.
15. It is assumed that the number of personnel by grade and type will be constant over the time period covered by the fiscal note so the reduction in general fund revenue will be constant.
16. Department of Revenue does not anticipate any additional costs due to the bill.
17. The bill, if passed and approved, is effective immediately and applies to tax years beginning after December 31, 2014.

<u>Fiscal Impact:</u>	<u>FY 2016 Difference</u>	<u>FY 2017 Difference</u>	<u>FY 2018 Difference</u>	<u>FY 2019 Difference</u>
<u>Expenditures:</u>				
TOTAL Expenditures	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>Funding of Expenditures:</u>				
General Fund (01)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
TOTAL Funding of Exp.	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>Revenues:</u>				
General Fund (01)	<u>(\$327,800)</u>	<u>(\$327,800)</u>	<u>(\$327,800)</u>	<u>(\$327,800)</u>
TOTAL Revenues	<u>(\$327,800)</u>	<u>(\$327,800)</u>	<u>(\$327,800)</u>	<u>(\$327,800)</u>
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	<u>(\$327,800)</u>	<u>(\$327,800)</u>	<u>(\$327,800)</u>	<u>(\$327,800)</u>

Sponsor's Initials

Date

Budget Director's Initials

Date